

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RETAIL ACCESS OPTIMIZATION INITIATIVE, 2011

Docket No. N2011-1

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO VALPAK INTERROGATORIES VP/USPS-T1-1 THROUGH 3, 7 AND 9
REDIRECTED FROM WITNESS BOLDT**

The United States Postal Service hereby provides institutional responses to the above-listed interrogatories of the Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. dated August 30, 2011. These interrogatories have been redirected from witness Boldt to the Postal Service for response. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO VALPAK INTERROGAORY REDIRECTED FROM WITNES BOLDT**

VP/USPS-T1-1.

Please refer to USPS-T-1, p. 10, which mentions "transportation accessibility" at line 13. These questions address the existence of intra-city public transportation such as local busses. (Please disregard any inter-city public transportation, such as Greyhound busses.)

- a. Of the 2,800 facilities discussed in USPS-T-1, p. 15, ll. 1-4, does the Postal Service know how many are in communities served by some form of intra-community public transportation such as a bus line, and, for such communities, whether a bus stop generally is located at or within a short walk from the post office?
- b. In those communities with no public transportation, or no public transportation terminating close to the local post office, is it reasonable to assume that most of those residents currently access the post office by some form of private motor vehicle transportation, either their own, or that of a relative or neighbor?

RESPONSE:

- a-b. The existence, or the lack thereof, of various possible forms of transportation options is a factor that is routinely examined in respective discontinuance studies. But on the whole, the only bus service that routinely comes up in discontinuance contexts outside of urban and suburban areas is school bus service, especially when a Post Office serves as a school bus stop. Otherwise, outside of urban and suburban areas, the only kind of bus service available is inter-city service.

In general terms, private bus service can only be found in areas where the demand for such service makes it economically viable or it is publicly subsidized. Such service is generally understood as facilitating access to jobs in larger urban areas for those who do not own or have access to motor vehicles (and those who choose not to use them) and reducing reliance on automobiles in traffic-congested areas.

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RESPONSE to VP/USPS-T1-1 (continued):

The vast majority of people who use some form of powered transportation use motor vehicles, of which automobiles are far and away the most numerous. This is true even in more rural locations. People who live 20 miles outside of the nearest town still need to obtain food and other provisions from retailers, as well as fuel for motor vehicles or for heating and cooking, access to medical care, and pursue socialization with others. While some people still manage to live off the grid; these needs, and access to postal services, are generally managed in rural locations through access to motor vehicles, whether owned, borrowed, or shared. Those who do not own vehicles nonetheless have friends or relatives who share transportation as they take care of their own needs. These United States definitely constitute a car driven society.

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VP/USPS-T1-2.

Is the population of the communities served by some of the 2,800 low workload post offices discussed in USPS-T-1, p. 15, ll. 1-4 less than the population of other communities that currently do not have a USPS-operated retail facility?

RESPONSE:

The Postal Service has no reason to determine the relative size of populations in proximity to the 2800 Post Offices compared to some set of locations not occupied by one of the 2800, so no empirical response is available. But this question can nonetheless be addressed in a general way. The USPS domestic service area has many thousands of communities that do not have a Post Office, station or branch located within them. Those communities have a wide range of sizes; customers in those communities also have access to postal services. Exactly who uses what forms of access would take considerable resources to assess; but the bottom line is that all customers do have access and the Postal Service fully intends that access will be sustained and retained by all customers. Offices open only two hours per day can be in small or large communities, so one can safely presume that other communities that do not have a classified postal facility collocated within them are both smaller and larger than those amidst the 2800.

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VP/USPS-3.

39 U.S.C. section 403(a) requires that “[t]he Postal Service shall plan, develop, promote, and provide adequate **and efficient** postal services....” Additionally, section 403(b) states that “[i]t shall be the responsibility of the Postal Service ... (3) to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, **consistent with reasonable economies of postal operations**, have ready access to essential postal services.” (Emphasis added.) In view of this statutory requirement, please refer to USPS-T-1, p. 15, ll. 1-4, where you discuss 2,800 low workload offices.

- a. What percentage of those 2,800 offices had total annual operating costs that **exceeded** annual revenues in FY 2010?
- b. What percentage of those 2,800 post offices had annual costs that were (i) between 75 percent and 100 percent of annual revenues in FY 2010, and (ii) between 50 percent and 75 percent of annual revenues in FY 2010?
- c. For those offices whose annual costs **exceed** annual revenues, particularly by a significant amount, please explain whether the Postal Service considers those offices as providing **efficient** postal services, consistent with **reasonable economies** of postal operations. *[Emphases in original from Val Pak.]*

RESPONSE:

- a-c. This question cites to statutory language that reflects the Postal Service obligation to provide efficient service. Such language stands in contrast to the oft-quoted section 101(b) that precludes discontinuance of certain Post Offices solely for operating at a deficit while mandating a “maximum” degree of regular and effective postal service to those communities.

Tension among competing statutory goals and objectives is hardly a new situation. The Postal Service accordingly takes such tensions into consideration when establishing policy and procedure. Handbook PO-101 itself is the product of considered application of all applicable sections of title 39, with input provided by management and counsel. Its underlying regulations, 39 C.F.R. Part 241.3 also went through *Federal Register* rulemaking proceedings, with both proposed and final rules published. By

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RESPONSE to VP/USPS-T1-3 (continued):

that mechanism, the Postal Service facilitated input from all interested stakeholders to arrive at a reasonable balance of all statutory sections.

As discussed more thoroughly in other interrogatory responses, some of the 2800 offices do generate more revenue than their total operating cost, although that is not true of most. However, the Postal Service does not understand the metric of operations costs versus annual revenue to be an especially useful measure of how efficiently service is provided.

Efficiency is perhaps better measured on a national scale. Many postal facilities cost more to operate than the revenue they generate. But in a network industry responsible for nationwide service and a universal service obligation, with mail flow demonstrating asymmetric passage through the system, many nodes can be expected to operate at a deficit even under the most efficient possible service.

But as reflected in the Request, widespread stakeholders share recognition that the postal retail network has more classified nodes than are truly necessary; such thinking supports a conclusion that diminution in the number and density of classified retail units could improve system efficiency.

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VP/USPS-T1-7.

Please refer to NAPUS-T1-40 and your response thereto as regards the Postal Service's evaluation of various "non-business" or "non-economic" considerations concerning the importance or value of a post office to the local community.

- a. Has the Postal Service given consideration to requesting a Public Service appropriation from Congress to support those "non-business" or "non-economic" considerations for offices which cannot be justified on the basis of economic considerations, such as the offices' costs and revenues? If your answer is negative, and in light of the fact that mail volume and revenue are no longer capable of providing financial support for such offices, please explain why not.
- b. As a hypothetical, assume that the Internet, the rate cap, and alternative retail access now mean that mailers no longer can be forced to subsidize uneconomic post offices. Also assume that Congress refuses to provide any subsidy for uneconomic post offices, and the Postal Service's debt limit is reached. Please explain and discuss the means or source of funds from which the Postal Service foresees continued subsidization of uneconomic post offices.

RESPONSE:

- a. The concept is not unfamiliar to the Postal Service. No determination has been made to define, calculate the magnitude of or pursue an appropriation resembling that described in this question, though it is assumed that the dollars involved would pale in comparison to the multi-billion dollar figures associated with eliminating Saturday street delivery, and resolving the pending retiree pension and health benefit funding issues.
- b. Irrespective of what is meant by an "uneconomic" post office, the Postal Service would, in the hypothetical, fund retail operations from the same sources that it funds mail processing, transportation, delivery and administrative operations.

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VP/USPS-T1-9.

- a. Please refer to Docket No. N2009-1, Valpak Initial Brief, p. 21, and references cited there. Please update and provide data for the average cost per dollar of revenue generated from sale of stamps via different channels, as shown there, with the current or most recently available data.
- b. Please refer to the Postal Service's April 2002 *Transformation Plan*, p. 15 and App. K, p. K-2, which shows the average cost of selling each dollar's worth of postage stamps at a retail counter as \$0.24. Please update that datum with the current or most recently available data.
- c. For the 2,800 low-volume retail facilities discussed in your testimony at p. 15, does the Postal Service have a separate estimate for the average cost per dollar of revenue generated from sale of stamps? If so, please provide and explain the source.
- d. For any of the remaining 850 retail facilities discussed in your testimony, does the Postal Service have a separate estimate for the average cost per dollar of revenue generated from sale of stamps? If so, please provide and explain the source.

RESPONSE:

- a-b. The Postal Service responds in terms of postage, rather than stamps alone. The most recent values available are from FY2009, except for the retail counter, which is FY2009. As the question notes, the *Transformation Plan* reported that an estimated cost per dollar for postage sales at retail counters was then \$0.24. Today that cost is estimated to be \$0.23. The much lower value supplied in the course of PRC Docket No. N2009-1 cannot also have been correct. For Stamps by Mail, the best available current cost estimate is \$0.08, while for consignment it is \$0.02. As shown in recent RPW quarterly reports, the Postal Service no longer utilizes a vending channel. Cost per dollar of revenue for PC Postage is \$0.04; Click-N-Ship costs \$0.07, CPUs cost \$0.13, Approved Shippers cost \$0.07, and Stamps by Mail cost \$0.08.
- c-d. Such data are not available.